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No. 91-1758

IN THE
Supreme Court of the United States
OCTOBER TERM, 1991

EDMUNDO PEREZ, In Pro Se,
Petitioner,
vs.
BMG MUSIC, CBS INC., and A & M RECORDS, INC.,
Respondents.

PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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Respondents BMG Music, Sony Music Entertainment Inc., successor to CBS Inc., and A&M Records, Inc.,[1] respectfully request that this Court deny the petition for writ of certiorari, seeking review of the Ninth Circuit's opinion in this case. That opinion is reported at 952 F.2d 318.

I.
STATEMENT OF THE CASE.

This action was brought by plaintiffs and respondents, three record companies which own the United States copyrights or the exclusive United States distribution rights under copyright in certain

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1 Pursuant to Rule 29.1 of the Rules of the Supreme Court of the United States, respondents provide the following information.

BMG Music is a New York partnership.

The corporate parents of Sony Music Entertainment Inc., are Sony USA, Inc., and Sony Corporation (Japan). The following entities are wholly or partially owned subsidiaries of Sony Music Entertainment Inc.: Sony Music Entertainment (Australia) Pty. Ltd.; Sony Music Entertainment (Austria) Ges. m.b.h.; Sony Music Entertainment (Korea) Inc.; Sony Tune, Inc.; Sony Music Canada, Ltd.; Sony Songs, Inc.; Epic/Sony Music Inc.; Important Record Distributors, Inc.; Portrait/Solar Music, Inc.; Tree Publishing Co., Inc.; Vista Marketing; Raven Records, Inc.; YM Corporation.

A&M Records, Inc. is wholly owned by PolyGram Holding, Inc. PolyGram Holding, Inc. is wholly owned by PolyGram, N.V. PolyGram, N.V., a publicly traded company, is 80% owned by Philips, N.V. (and 20% by the public).

sound recordings embodied in phonorecords[2] (hereinafter "plaintiffs"). Plaintiffs' phonorecords in issue were manufactured outside the United States (in Mexico), imported into the United States by the defendants below without authorization from plaintiffs, and subsequently sold by them also without authorization from plaintiffs. After trial, the District Court found that petitioner Edmundo Perez and two corporate entities wholly owned and controlled by him (hereinafter "defendants") were liable for willful copyright infringement. Defendants' acts clearly violated Section 602 of the Copyright Act:

> "Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501." 17 U.S.C. § 602(a).

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2 "'Phonorecords' are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 101.

"'Sound recordings' are works that result from the fixation of a series of musical, spoken, or other sounds, . . . regardless of the nature of the material objects, such as discs, tapes, or other phonorecords, in which they are embodied." *Id.*

Sound recordings are works of authorship protected by copyright. 17 U.S.C. § 102(a)(7).

After trial, the District Court found that defendants committed their unlawful acts with actual knowledge that their unauthorized importation and/or sale of foreign-made phonorecords violated plaintiffs' rights. In addition, the Court found that defendants continued to violate plaintiffs' rights after notice *and* even after the imposition of a preliminary injunction. Based on the clear law and the virtually undisputed facts, the Ninth Circuit affirmed in all respects the Judgment of the District Court.[3]

II.
REASONS WHY THE PETITION SHOULD NOT BE GRANTED.

A. There Is No Conflict Among The Circuits With Respect To The Application of "The First Sale Doctrine" To Section 602.

The Ninth Circuit followed other relevant decisions holding that Section 602 is violated and infringement of copyright occurs where copyrighted goods manufactured abroad are imported into the United States without authority of the copyright proprietor. This section applies both to "piratical"

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3 The District Court found defendants in contempt for violating the preliminary injunction. This contempt order is not challenged by the Petitioner. The District Court had before it overwhelming evidence of defendants' willful infringement and, therefore, imposed on defendants increased statutory damages by reason of that conduct. The Petitioner also does not challenge the finding of willful infringement or the damage assessment.

copies or phonorecords (i.e., made without any authorization of the copyright owner) and to unauthorized importation of copies or phonorecords that were lawfully made abroad. "The general approach of Section 602 is to make unauthorized importation an act of infringement in both cases. . . ."[4] H.R. Rep. No. 1476, 94th Cong. 2d Sess. 169-70, reprinted in 1976 U.S. Code Cong. & Ad. News 5659, 5785-86.

All courts which have confronted this issue uniformly agree that these acts -- unauthorized importation of copyrighted goods manufactured abroad -- constitute a violation of Section 602. *See CBS Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd mem.*, 738 F.2d 421 (3rd Cir. 1984) (unauthorized importation of foreign made phonorecords); *Original Appalachian Artworks v. J.F. Reichert, Inc.*, 658 F. Supp. 458 (E.D. Pa. 1987) (unauthorized importation from Europe of "Cabbage Patch" dolls); *CBS Inc. v. Casino Record Distributors of Florida*, 654 F. Supp. 677, 679 (S.D. Fla. 1987) (unauthorized importation of foreign-made phonorecords); *T.B. Harms Co. v. Jem Record Company, Inc.*, 655 F. Supp. 1575, 1578 (D. N.J. 1987) (unauthorized importation of foreign-made phonorecords embodying copyrighted musical compositions); *Hearst Corp. v. Stark*, 639 F. Supp. 970,

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[4] The term "parallel importation" frequently is used to refer to the situation where articles containing copyrighted matter, lawfully made outside the United States, are imported into the United States without the permission of the owner of the United States copyright. *See, e.g., CBS Inc. v. Casino Record Distributors of Florida, Inc.*, 654 F. Supp. 677, 678 (S.D. Fla. 1987).

976 (N.D. Cal. 1986) (unauthorized importation of books manufactured abroad); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 25 n.7 (S.D. Fla. 1985) (Section 602(a) prohibits "importation without consent of the copyright owner into the U.S. of copies or phonorecords of a work acquired outside the U.S. and defines such action as an infringement of the exclusive right to distribute"); *CBS Inc. v. Pennsylvania Record Outlet, Inc.*, 598 F. Supp. 1549, 1557 (W.D. Pa. 1984) (unauthorized importation of foreign-made phonorecords); and *Nintendo of America, Inc. v. Elcon Industries, Inc.*, 564 F. Supp. 937, 994 (E.D. Mich. 1982) (unauthorized importation of foreign-made circuit boards).

The Petitioner miscites and then relies upon two other cases in their effort to create a conflict. Neither of these cases contradicts the Ninth Circuit opinion below nor any of the other parallel importation cases cited above. The first, *Sebastian International, Inc. v. Consumer Contracts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988), did not involve facts of the kind contemplated by Section 602 and involved in this case. On the contrary, that case arose where the copyright owner[5] manufactured products *in the United States* and subsequently sold those products

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5 In *Sebastian*, unlike here, the plaintiff's copyright was limited to a label on a product (beauty care supplies), not the product itself. Thus, the court in *Sebastian* was confronted with "the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself." 847 F.2d at 1099. In fact, the plaintiff initially had alleged a claim for breach of contract, and later amended to add the copyright claim.

directly to a foreign distributor in South Africa. The foreign distributor then *re*shipped the products back to the United States. In holding that Section 602 did not protect the copyright owner from the *re*shipment of products originally manufactured and sold *in the U.S.*, the *Sebastian* Court carefully distinguished the situation before it from other relevant parallel import cases, all of which involved the importation of goods "produced abroad and the sales occurred overseas" without consent of the United States copyright owner. 847 F.2d at 1098. For that reason, as the Court noted, these other cases "demonstrate a significant difference from the factual situation" dealt with in *Sebastian*. *Id.* The *Sebastian* Court then specifically declined to pass upon the factual situation not before it -- goods manufactured abroad and then imported into the United States. *Id. See also Cosmair, Inc. v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. 344 (S.D. Fla. 1985) (cosmetic products manufactured and first sold in the United States).

In its opinion, the Ninth Circuit also specifically discussed this distinction. It expressly limited its decision to the unauthorized importation of "goods manufactured abroad." 952 F.2d at 319. The Ninth Circuit agreed that the issue before the *Sebastian* Court, where the copyrighted goods were manufactured in the United States, was not the issue before it, stating:

> "That case [*Sebastian*] . . . involved the exportation, and later importation, of copyrighted goods originally manufactured and sold in the United States. Because those facts are not before us in

this case, we specifically decline to pass upon them here." 952 F.2d at 319 n.3.

As the Ninth Circuit held, this critical distinction between goods manufactured in the United States and those manufactured abroad flows from the fact that by its terms, the first sale doctrine (17 U.S.C. § 109(a)) applies only to goods "lawfully made under this title," i.e., made in the U.S. 952 F.2d at 319. *See, e.g., CBS Inc. v. Scorpio Music Distributors, Inc., supra,* 569 F. Supp. at 49. *See also Beechwood Music Corp. v. VJ Records, Inc.*, 328 F.2d 728 (2d Cir. 1964). Thus, the first sale doctrine only applies to limit Section 602 when, as was the case in *Sebastian* but was *not* true here, the copyrighted goods sought to be protected were made and initially sold in the United States. As stated by the Court below: "[T]he first sale doctrine in 17 U.S.C. § 109(a) does not . . . provide a defense under 17 U.S.C. § 602 for goods manufactured abroad." 952 F.2d at 319.

The second case relied upon by the Petitioner, *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275 (4th Cir. 1989), is equally unavailing. In that case, the issue before the Court, unlike here, was whether the first sale doctrine applied to the copyright owner's exclusive *public performance* right, not the distribution right implicated here. *See* 17 U.S.C. § 106(3), (4). The Court found that the first sale doctrine was inapplicable to the public performance right, and, therefore, defendant's importation and later *public performance* of video games violated the United States copyright owners' rights. 883 F.2d at 280. The key issue before the Court here -- whether the first sale doctrine permits

the importation of goods manufactured abroad which otherwise would violate the exclusive *distribution right* -- simply was not before the *Red Baron* Court, since the plaintiff expressly chose to rely solely on the violation of its performance right. Id. at 278.[6]

In sum, defendants here admittedly imported directly from Mexico copyrighted goods manufactured in Mexico solely for resale in Mexico. Thus, there is no issue here, as in *Sebastian*, of goods initially manufactured in the United States, sold directly to a foreign distributor, then reshipped into the United States; and there is no issue here, as in *Red Baron*, of an alleged violation of a performance right.

B. The Alleged Unavailability of the Imported Phonorecords Is Irrelevant Under Section 602.

The other argument raised by the Petitioner, that the First Amendment precludes application of

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[6] The Petitioner's lengthy quotations from the unofficially reported District Court memorandum opinion in *Red Baron* (Petition at 18-21) and to *Nimmer On Copyright* do not further his position. In fact, Professor Nimmer's treatise clearly supports the position taken by plaintiffs here: "The distribution right against unauthorized importation conferred by Section 602(a) apparently is not subject to the Section 109(a) 'first sale' defense." 2 M. & D. Nimmer, *Nimmer On Copyright* § 8.12[B] at 8-142 (1991). Neither *Sebastian* nor *Red Baron* affects the conclusion that *Scorpio* "remains closest to the legislative intent." *Id.* at 8-143 and nn. 63 & 64. *See also* P. Goldstein, *Copyright*, § 5.6.1.2 at 603 (1989).

Section 602 where the imported products are not available in the United States (Petition at 21-24), is equally frivolous. The Petitioner does not cite *any* precedent for that contention and does not argue that there is any conflict among the Circuits on this issue. Neither Section 602, nor the legislative history, makes the distinction argued for by the Petitioner. *See* H.R. Rep. No. 1476, 94th Cong., 2d Session, 169-70, reprinted in 1976 U.S. Code, Cong. & Ad. News 5659, 5785-86 (House Report) and S. Rep. No. 473, 94th Cong., 1st Session 7 (1976) (Senate Report). As the Ninth Circuit found, this argument is without merit because "this is not one of those 'rare instances where First Amendment considerations will operate to limit copyright protection for graphic expressions of newsworthy events,'" 952 F.2d. at 320, quoting *Sid and Marty Krofft Television v. McDonald's Corp.*, 562 F.2d 1157, 1171 (9th Cir. 1977).[7] Moreover, this very argument was rejected by the only court expressly to

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7 This argument also is incorrect as a *factual* matter. Defendants never inquired, let alone determined (or proved), whether the copyrighted sound recordings in issue were legitimately available in the United States. (Reporters Tr. at 129-30.) The uncontroverted evidence established that domestic copies, manufactured in the United States, of each of the phonorecords in question had been released in this country. (Reporters Tr. at 27). Indeed, *the U.S. version* of "Emmanuel (one of the copyrighted sound recordings in issue) was offered into evidence. (Reporters Tr. at 26, 27; Trial Exhibit 10), as well as the Certificates of Copyright Registration for the sound recordings in issue which state plainly that the sound recordings had been "published," i.e., released, in the United States. *See* Trial Exhibit 1. Further, several of the copyrighted sound recordings in issue were listed in *Billboard* magazine, an industry publication, as top sellers in the U.S. (Reporters Tr. at 28, 31-33.)

consider it, *Hearst Corporation v. Stark, supra*, 639 F. Supp. at 975-76:

> "Defendants and the *amici curiae* argue that Section 602 should not be applied to books which are out of print or otherwise unavailable in the United States. They argue that this interpretation is necessary in order to avoid conflict with the First Amendment. However, no such limitation appears from the language of Section 602 or from its legislative history. The test under the statute is simply whether there has been an importation of a copy of a work which infringes a copyright in the United States."

The Petitioner's sole citation in support of this argument -- to a law review Note -- also is misleading (Petition at 21-22). This Note does *not* contend that Section 602 meant to provide an unstated privilege with respect to the importation of copyrighted products not otherwise available in the United States. On the contrary, the Note concluded, as plaintiffs contend, "that copyright owners under the current law have the power to determine when a record should be marketed in this country. Such a scheme reflects the general concept of copyright protection." Note, Parallel Importing Under the Copyright Act of 1976, 17 N.Y.U. Journal of Int'l Law & Politics, 113, 117 (1984).

The entire policy behind copyright protection is inconsistent with this argument advanced by the

Petitioner. The exclusive right to distribute the copyrighted work (17 U.S.C. § 106(3)), of which the right to control importation is one manifestation, was designed to grant the copyright holder "the prerogative to determine when or whether a particular work will be published, re-released or removed from print. *Hearst Corporation v. Stark, supra*, 639 F. Supp. at 978. As this Court observed in *Harper & Row Publishers, Inc. v. Nation Enterprises, Inc.*, 471 U.S. 539, 554-55 (1985):

> "In its commercial guise . . . an author's right to choose when he will publish is no less deserving of protection. The period encompassing the work's initiation, its preparation, and its grooming for public dissemination is a crucial one for any literary endeavor. The Copyright Act echoes the common law's concern that the author or copyright owner retain control throughout this critical stage."

In short, Section 602(a) means what it says: namely, that any unauthorized importation for purposes of sale or distribution infringes the exclusive distribution right of the copyright owner.

C. The Petitioner's Unsupported Construction Of Section 602 Would Render It Virtually Meaningless.

As set forth above, all of the parallel import cases are consistent. None of these cases stands for the proposition that the first sale doctrine applies to

limit Section 602 when copyrighted goods manufactured abroad are imported without consent. In fact, no court ever has applied such a blanket first sale exception because to do so would be contrary to the intent of Section 602, and would render it meaningless with respect to lawfully made foreign product. This fallacy in Petitioner's argument was recognized as early as the seminal *Scorpio* decision:

> "Construing § 109(a) as superseding the prohibition on importation set forth in the more recently enacted § 602 would render § 602 virtually meaningless. . . . The copyright owner would be unable to exercise control over copies of the work which entered the American market in competition with copies lawfully manufactured and distributed under this title. This court cannot construe the statute so as to alter the intent of Congress, which has set restrictions on the importation of phonorecords in order that rights of United States copyright owners can be preserved." *CBS Inc. v. Scorpio Music Distributors, Inc., supra*, 569 F. Supp. at 49.

Section 602 was added to the 1976 Copyright Act precisely to provide protection to copyright proprietors in situations where they could not rely upon direct contractual restrictions placed upon the importer. Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., Copyright Law Revision at 213 (Comm. 1963). In other words, Section 602 was

designed to apply *after* there was a first sale to persons who were not in privity of contract with the copyright proprietor. These persons could not be sued for breach of contract for importing foreign-made goods into the United States, thus making Section 602 necessary to protect the copyright owners' rights. Therefore, the Petitioner's strained and unsupported argument has been rejected by all courts and is not a reasonable interpretation of the scope of Section 602.

III.
CONCLUSION

Section 602 was enacted specifically to deal with "the serious nature of the problem parallel imports create." *CBS Inc. v. Casino Record Distributors of Florida, Inc., supra*, 654 F. Supp. at 679. The language of the statute is clear; it has been interpreted and followed consistently to protect those important copyright interests it was designed to protect. For the reasons set forth herein, the Petition should be denied.

Dated: May 29, 1992

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